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¶1. (SBU) Summary: Dueling events on February 24 highlighted contrasting views of how and when Morocco will be impacted by the international financial crisis. In Rabat, Prime Minister Abbas El Fassi presided over the signature of conventions that implement the government's USD 150 million in initial "emergency measures" to address the downturn's emerging impact on the textile, leather, and automotive industries. Finance Minister Mezouar conceded that the measures are not "spectacular," but argued that they do not need to be: "this is not a stimulus policy," he stressed, but one of "support for growth." At the same time in Casablanca, economists debated how Morocco should respond to the crisis at the annual conference of the country's leading economic think tank, with Tourism Minister Boussaid rebutting criticism that the government has been slow to respond by stressing that growth will exceed six percent this year and that there is "no need to panic." End Summary.

¶2. (U) The 1.3 billion MAD (150 million USD) in support for the three most impacted sectors of the economy-- textiles, leather, and auto parts-- follows the outline that Mezouar provided earlier this month (reftel). 800 million MAD is allocated to reimbursing companies for part of their social security expenditures. Companies that maintain 95 percent of their workforce and do not lower salaries are eligible to have 20 percent of such expenditures reimbursed by the government. In addition, to ensure that companies retain access to sufficient liquidity to continue to operate, the government reinforced its system of bank guarantees, leading Moroccan banks to agree to maintain the lines of credit that they opened to the private sector in 2008, and to grant a one-year moratorium to companies that request it. Finally, companies are eligible to draw on the 500 million MAD that the government has allocated to its ambitious two-year export promotion strategy (septel).

¶3. (U) Finance Minister Mezouar was careful not to oversell the measures in his public comments at the convention signings. He argued that they were in line with the government's attempts to craft a pragmatic, public-private response to a crisis whose implications for Morocco are only

now becoming evident. "They do not constitute a stimulus program," he stressed, but a "support for growth." He added that his recently instituted strategy committee (reftel) will continue to meet to work on other measures for other sectors. Measures under consideration include reducing port charges and permitting companies that imported material temporarily for re-export, but now find that their foreign markets have dried up, to sell up to 15 percent of such products on the domestic market.

¶4. (U) At the same time that the conventions were signed, the "Centre Marocain de Conjoncture" (CMC), the country's leading economic think tank, organized its annual economic conference in Casablanca on the impact of the crisis and appropriate policy responses to it. While CMC president Habib El Malki pressed for a "national growth pact," arguing that government efforts to diversify and modernize the economy have been too haphazard and uncoordinated, many speakers emphasized instead the "Moroccan exception" and the strong position from which Morocco confronts the crisis. Chief among them was Tourism Minister Mohammed Boussaid, the designated government representative at the event, who predicted that growth this year will exceed 6 percent, and that "we mustn't react to things that aren't there." There is "no need for panic," he argued, "we must be flexible and react as the crisis develops."

¶5. (U) The Central Bank's Director of Studies, Karim El Aynaoui, echoed this positive message, stressing that positive statements by Bank Governor Abdellatif Jouahri, among others, stem not from "myopia" but from economic realities. He pointed out that the crisis hit after the longest period of growth in Moroccan history, and that while industry will have to adjust prices in the face of falling demand, Morocco has unique strengths in the face of what is

primarily a "debt crisis." The country largely finances itself, its budget has been balanced over the last two years, and its overall debt level has fallen to 48 percent of GDP. The country's financial sector is in a very strong position, and continues to provide financing to the real economy, with credit growing by 22 percent over the past year. Aynaoui contrasted the health of Morocco's banking sector, with only 4 percent of private bank lending in distress, to the frozen credit markets in the U.S. and Europe, arguing that "we don't have a credit cruch here," and a rescue plan is unnecessary. He conceded that the slowdown in Europe will affect Morocco, estimating that each drop of 1 percent in European GDP lowers Moroccan GDP by 0.4 percent, but noted the silver lining in falling commodity prices. Both imports and exports will fall by up to 18 percent, he predicted, but the result will be an easing of the balance of payments, given that imports start from a larger base. He noted that Morocco already recouped in January the decline it experienced in foreign exchange reserves last year, with reserves rising at the end of January to 187 billion MAD.

¶6. (U) Other speakers were more nuanced in their appraisal of the situation. Hamad Kassel, of Morocco's leading business organization, CGEM, noted that key sectors of the Moroccan economy have been impacted, showing that "we are not immune." Investors are shelving projects, small companies in particular face a "crisis" in financing, and export-oriented economies enter the crisis in a weak position, given their lack of competitiveness and pre-existing problems. He echoed Mezouar's appeal for public-private coordination, and urged that the government take advantage of the crisis to improve Morocco's business environment, noting recent slippage on many indices. A recent survey by CMC confirmed Kassel's assessment of the crisis's impact, with nearly 80 percent of respondents already noting that they have "felt" the crisis, primarily through a decline in exports (32 percent), reduction in orders (61 percent) and impact on cash flow (67 percent). Surprisingly, but buttressing Aynaoui's optimistic assessment of the banking sector, only 10 percent reported a

change in the attitude of their banks. Most significantly, 98 percent expect the crisis to expand and impact the economy.

¶7. (U) How extensive that impact will be in Morocco remains an open question. Analysts do not all share the government's high growth projections (in addition to the government's 6 percent, the High Planning Commission (HPC) has predicted 6.7 percent), but even the CMC's "worst-case" scenario forsees the economy growing at a 4.8 percent rate this year and 3.4 percent in 2010. The center's "more likely" base case, which anticipates a 1.7 point reduction in GDP growth (as opposed to the "worst-case's" 2.7 points) forsees growth of 5.2 percent in 2009 and 4 percent in 2010.

¶8. (U) Comment: This year's promising agricultural outlook has sparked increased optimism among government and private observers of the Moroccan economic scene. If in the past sustained non-agricultural growth cushioned downturns in agricultural production, this year the shoe is on the other foot and Morocco is relying on an exceptional harvest to balance out difficulties elsewhere. But with the larger crisis impact emerging in 2010, much will depend on that year's agricultural output: any recurrence of Morocco's recent droughts would greatly compound Morocco's difficulties. End comment.

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